

K.J. Somaiya Institute of Management Studies & Research

Course: PGDM (Executive) Tri I

Sub: Financial Reporting and Accounting Standards

(End Term Examination)

Time: 3 Hours

Marks: 50

Date : 11/12/2017

Note: a) Solve any five questions. Each question carries equal marks.

1. From the following trial balance of Ms Sindhu, prepare an income statement

Trial balance as on 31st March Current Year

Account Name	Amount(Rs)	Account Name	Amount(Rs)
Opening Stock		Sales	1800000
- Finished Goods	200000	Closing Stock	
- Raw materials	20000	- Finished goods	170000
Purchase of raw materials	700000	- Raw materials	120000
Direct wages	235000	Profit on sale of share	15000
Manufacturing Expenses	90000		
Administrative Expenses	80000		
Depreciation	20000		
Preliminary expenses written off	40000		
Selling and distribution expenses	45000		
Loss on sale of plant	75000		
Interest on debenture	20000		

2. Explain the following transactions –

- Garrett Deliveries purchases a car for Rs 1800000. The car has an estimated salvage value of Rs 40000 and is expected to be driven for seven years. Garrett uses the straight line method of depreciation. Calculate annual depreciation expenses. (2 Marks)
- Sunders Catering purchases a mini truck for Rs 3200000. The mini truck has an estimated salvage value of Rs 600000 and is expected to be driven for four years. Sunder's Catering uses the double-declining-balance method of depreciation. Calculate depreciation expenses for each of four years of the asset's life. (4 Marks)
- Chris Crispy Chicken sold one of its used deep fryers for Rs 50000. The original cost of the fryer was Rs 150000 and related accumulated depreciation at the time of the sale was Rs 70000. Calculate the gain or loss on the sale of the deep fryer. For what amount would

Chris need to sell the equipment to generate no gain or loss?

(4 Marks)

3. A company enters into the following transactions-

- a) Issued Rs 250000 of shares for cash.
- b) Issued a long term note in exchange for a machine worth Rs 50000
- c) Received Rs 210000 in cash from collecting accounts receivable.
- d) Paid Rs 75000 on account payable.
- e) Issued Rs 500000 of equity shares to pay off an Rs 500000 long term loan.
- f) Declare and paid a cash dividend of Rs 780000
- g) Sold an investment costing Rs 100000 for Rs 100000 in cash.
- h) Purchased new machinery for Rs 240000 cash.
- i) Issued bonds at face value for Rs 25000.
- j) Paid Rs 2000 for renewal of an insurance policy.

Classify each transaction as a cash inflow or a cash outflow from operating activities, investing activities or financing activities, or as a non-cash transaction.

4. Write short notes on any Three-

- a) Revenue recognition concept
- b) Deferred Tax liability and assets
- c) Accounting standards
- d) Cash Flow Statement
- e) Separate Entity Concept

5. The following are the actual ratios if Gypsy Ltd and the corresponding standards:

Ratios	Actual	Industry Average
Current ratio	6:1	4:1
Liquid ratio	2:1	1.5:1
Gross profit margin	22%	22%
Operating Profit margin	16%	14%
Net Profit Margin	8%	10%
Creditors payment period	30 days	40 days
Inventory turnover	8 times	10 times
Debtors collection period	45 days	56 days
Fixed assets turnover ratio	3 times	4 times
Debt Equity ratio	2.5:1	1.75:1
Return on shareholders' net worth	6%	10%

Compare the financial performance with industry average and comment on the same.

6. A new vendor of groundnuts preparing for the Monday fair bought one bag of nuts on Tuesday, for Rs 30 and another one on Wednesday for Rs 40. He bought two more bags on Friday for Rs 53 each. He could sell one bag in the first Monday fair at Rs 90. In the next Monday fair after a week, he could sell the remaining bags at Rs 90 each.

What was his cost of goods sold and profit after the first Monday? What was his ending inventory? What was the net result of business at the end of second Monday? To show these prepare the comparative statement under the assumptions of FIFO and LIFO method of valuation.

7. Brain Company has good cash balance and earn the net income in the month of June was Rs 19635. Mr Brain owned all the stock of Brain Company. At the end of June, Mr Brain paid himself an Rs 11700 dividend and used the money to repay her loan from the company. Prepare the balance sheets as on June 1st and as of June 30th in proper format.

Accounts balances are-

	1st June (Rs)	30th June (Rs)
Accounts payable	8517	21315
Accounts receivables	21798	26505
Accrued wages payable	1974	2202
Accumulated depreciation on building	156000	157950
Accumulated depreciation on equipment	5304	5928
Bank notes payable	8385	29250
Building	585000	585000
Capital	390000	390000
Cash	34983	66660
Equipment	13260	36660
Land	89700	89700
Stock	29835	26520
Note receivable Mr Brain	11700	0
Other non-current assets	4857	5265
Non-current liabilities	2451	2451
Prepaid insurance	3150	2826
Retained Earnings	221511	229446
Supplies Stock	5559	6630
Tax payable	5700	7224